



Conference on Regional Cooperation and Integration

Experiences in Asia and the Pacific

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Papers and Presentations

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**Dinner Remarks
by
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Experiences in Asia and the Pacific**

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I. Introduction

Distinguished government officials, guests, ladies and gentlemen,

On behalf of ADB I join VP Zhao in welcoming this Conference on Regional Cooperation and Integration. I am also very pleased to see such an impressive collection of participants. This meeting is the first time we have drawn together all our regional cooperation and integration programs in one place. Your participation in this event has truly enriched our collective learning and knowledge sharing. Each one of you brings with you a vast amount of practical experience in regional cooperation and integration, or RCI.

As some of these programs have been operating for more than a decade, this is an opportune time to take a good, honest look at what has really been accomplished and where more work is needed. It is in a sense both a “reality check” and a chance to learn from each other the various facets of regionalism, open regionalism, and RCI.

This evening I want to discuss two sets of issues:

First, how does regional cooperation happen? Specifically, what drives regional cooperation? You have heard, and will continue to hear, plenty about specific experiences, what works, what does not, and what needs more attention across the various pillars of connectivity. On these issues, you may know a lot more than I do. Ultimately, the question is “what drives cooperation?” Is it only derived from crisis management?

Secondly, I would like to raise five issues we can all ponder over the coming months as our work progresses—issues that will have an effect on the overall mood influencing RCI.

II. How RCI Happens

There are several ways to look at RCI. In normal times, national governments make their policy choices based on what is best for the nation and its people. But we are becoming increasingly melded together by an expanding globalized economy, where cross-border linkages have become ever more pronounced. The production networks and supply chains that feed them require the ability to freely move goods, services, capital, people and ideas across borders.

And as these things move from surplus to deficit regions, and are replaced by units of value—call it finance—distortions tend to occur. Then something bursts. In 1997 in Southeast Asia it was financial mismatches in currencies and loan maturities. As I am sure you heard this morning from Iwan Azis, in 2008 it was complicated financial instruments that left risk scattered throughout the financial world with little hope of being found, let

alone being repaid. These financial crises spawned contagion—in 1997 around Asia; in 2008, around the world.

These are the events—some financially catastrophic—that disrupt real economic growth, create recessions and hurt the welfare of constituents. Events that force governments and policymakers into dialogue, cooperation, and—to hopefully resolve distortions—greater integration. That is force majeure, or top-down RCI.

I am not suggesting that the results are necessarily bad. From the 1997 Asian financial crisis, the Association of Southeast Asian Nations, or ASEAN—Asia's longest standing regional grouping—became something of a hub for wider regionalism. The People's Republic of China, Japan, and Republic of Korea realized the benefits, some might say the necessity, of working with ASEAN to create ASEAN+3. That sparked dialogue processes that have resulted in the Chiang Mai Initiative Multilateralization reserve pooling arrangement, the establishment of the ASEAN+3 Macroeconomic Research Office, the Asian Bond Markets Initiative, a Credit Guarantee and Investment Facility, and work on regulatory harmonization and standardization, among others. With interest from India, Australia and New Zealand, and, since November last year, the Russian Federation and the US, we now enjoy a much expanded East Asia Summit process.

In 2008 we saw recognition of the need to restructure the global financial architecture, with the G20 becoming the guiding force. Multilateral finance institutions were allocated additional resources, including ADB. New global regulatory frameworks were established and are still being

discussed and implemented to varying degrees. And the strength of emerging markets—and their potential of working more closely together is growing. I refer here to Latin America and Asia; and Asia and Africa—so-called “South-South” cooperation.

My point here is that these crises—and the increased regional cooperation and integration they spawn—are generally what gather all the news and attention. They are indeed extremely important, because they highlight not just the need for greater cooperation, but the need to establish better safety nets, financial and otherwise, for better surveillance, monitoring, thus promoting future crisis prevention.

Now, let's stand back and look at RCI from a different perspective, one that grows out of a shared need and desire for development, one that cannot happen without increased trade. Asia has seen a substantial increase in trade—both external and intraregional—as a result of production networks, supply chains, and deepening globalization in general. There have been many developments in trade facilitation and security driven by new technology, and increased cooperation between governments and the private sector. These have created new investment and employment opportunities, resulting in improved living standards across the region. However, mounting security threats, especially after 9/11, have increased the complexity of border risk management. In addition, countering illicit trade continues to be a challenge globally. Natural disasters affect lives and economic activities, disrupting supply chains and distribution networks. All these are challenges that must be addressed. Customs modernization, trade facilitation, and security measures are critical to meet the complex challenges in the 21st century.

These are a few examples of what can be called a more bottom-up approach to regional cooperation and integration. Compared with crisis-driven cooperation, it may garner less media attention, but in many ways it is directly linked to people's daily lives, contributing to people's welfare. In other words, this bottom-up RCI is more adept at reducing poverty and creates more inclusive, sustainable and balanced development in the long run.

This is the reason why we have structured this conference on sharing experiences across those subregions that have taken on the challenge of *doing* RCI from the ground up.

III. Food for Thought

Before concluding, let me highlight five issues all of us can mull over during the coming months:

- I. **The first is future global or regional financial crises.** The current economic weakness, especially in the European Union, is a factor we must consider in managing our economies over the next several years. While unpredictable, Asian countries have suffered from a series of economic crises over the past few decades. We can try to prevent crises, but they tend to occur despite our best efforts. The possibility of future shocks is there. And while RCI is designed to survive shocks, it must also contribute to national resilience. RCI must be built with an eye on providing tools to support poverty

reduction even in times of crisis. I am very happy to report to you that discussions are well underway towards doubling the amount of the Chiang Mai Initiative Multilateralization reserve pooling arrangement. ADB has continued to support trade during this challenging time through our Trade Finance Program, which provides guarantees and loans through banks, and supported about \$3.5 billion in trade in 2011.

- II. **Second, let's consider specific short-term concerns.** In the near-term the world economy will be characterized by relatively weak economic growth in advanced economies coupled with high commodity prices—especially for energy. These likely trends must be reflected in national policies. RCI programs will need to think about the oft-cited call for rebalancing from a reliance on export-oriented development to a more domestic demand as a share in the sources of economic growth. Energy and food security will also likely increase as a priority issue as costs rise.
- III. **The third issue is climate change.** RCI must be seen as a part of both climate change mitigation and climate change adaptation—both driving down carbon emissions and reducing the impact of climate change. Climate change may lack the immediacy of a financial crisis, but it is no less important. Increasingly rich, urbanizing middle-income countries with democratic governments may in fact find greater public demand for better, more environment-friendly development.

- IV. **Fourth is technological change.** Over the span of a few decades, computers have revolutionized business and personal life—and government. These changes will only accelerate. They will particularly affect the means by which trade can be eased and financed. RCI must anticipate and encourage the use of these constantly upgrading technologies. This requires continuous human resource development to better adapt to future technology requirements.
- V. **Finally, adapting to higher living standards and public expectations is an increasing challenge for governments.** Asia's unprecedented growth, especially in the PRC and India, has raised living standards and transformed economies. RCI must examine future market patterns. For instance, growing economies are likely to be dominated increasingly by services, so trade policies must be oriented toward easing the cross-border movement of services and people as much as goods. Skilled labor migration has been a part of several cross-border arrangements. But managing unskilled labor migration is a unique challenge, particularly where it has occurred illegally. The Food basket will change to reflect higher living standards and trade profile will be altered to accommodate these changes.

IV. Conclusion

In conclusion, as you know, RCI is not easy. But ADB is ready to work with you to meet the challenges in this 21st century of bringing our

countries and people closer together. With your wisdom and expertise, I believe that we can improve our efforts to deliver successful and sustainable RCI to people across Asia and the Pacific. This conference is an excellent opportunity to take our work forward.

I look forward to the tomorrow's sessions. And, before we conclude our dinner, I would like to propose a toast to all of you—both for the hard work you have accomplished, and for the challenging work ahead in building an Asia in which regional cooperation and integration can flourish. To a successful conference and a bright future for Asian regionalism.